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SUBJECT: KARBALA PRDC PROCESS OVERVIEW AND ISSUES

¶1. (SBU) SUMMARY: The Governor of Karbala Province has asked the PRT for greater Iraqi control over the PRDC process by which most U.S. funded projects in the Province are executed. The PRT sees substantial benefits to the overall U.S. mission that could be obtained from increased Iraqi control of U.S. funds allocated for construction in the province, provided that increased Iraqi control of U.S. funds is coupled with increased PRT involvement in the Iraqi budget execution process. The PRDC process as it now operates in Karbala Province does little to support the key U.S. objective of developing Iraqi capacity to execute the Iraqi budget. The PRDC process is focused on proper execution of U.S. funded projects and offers limited means to impact the Iraqi provincial budget execution process. The PRT would like to leverage increased Iraqi involvement in U.S. funded projects to enable the PRT to obtain a degree involvement in the Iraqi capital budget execution process. As a way to achieve this, the PRT suggests conditional monetary grants to the Provincial Government under terms that would require PRT participation in the Provincial capital budget execution process. (End Summary)

¶2. (SBU) In mid-March, Karbala Provincial Governor Aqeel Al-Khazaely visited with the PRT TL at REO Hillah. The Governor presented the PRT with a list of complaints regarding the PRDC process. The key points mentioned in the Governor's two page list of issues include his requests for: Iraqi involvement in the approval of contractors allowed to bid on U.S. funded projects, Iraqi involvement in the bid selection process; Iraqi approval of any progress payments on U.S. funded projects; and inclusion of Iraqi contract terms that will allow the Iraqis to pursue Iraqi contractors in Iraqi courts for deficient performance on contracts.

¶3. (SBU) In response to the Governor's concerns, the PRT conducted a review of the PRDC process in Karbala Province. PRT Offs who attended Karbala PRDC meetings met with the Iraqis involved in that process, local and regional representatives of the U.S. Army Corps of Engineers (USACE) who oversee that process, and USACE representatives who have extensive, personal experience in working that process in Karbala Province.

#### OVERVIEW OF THE KARBALA PRDC PROCESS

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¶4. (SBU) The PRDC process varies to some extent throughout South Central Iraq as to both the participants and the process. These differences appear to be primarily a result of Iraqi preferences and capabilities. PRDC meetings in the South Central Provinces tend to occur about once every two weeks. The attendees vary. For Karbala, the PRDC attendees usually include the Governor's Assistant for Technical Affairs ("TA"), representatives of the directorates as selected by the TA, and an occasional appearance by a provincial council representative.

Until September of 2007, the PRDC meetings alternated with Sector Coordination Team (SCT) meetings. The SCT meetings differ from the usual PRDC meetings in that the SCT focus is on technical issues related to ongoing projects. Where the SCT process remains in use in South Central, the PRDC engagements relate primarily to the selection of new projects and similar policy issues as opposed to the project management efforts

undertaken in the SCT meetings. Beginning in about September, 2007, the Karbala Governor's office began to exert greater control over DG involvement in PRDC and SCT meetings to the extent that SCT meetings were abandoned and all decisions, both policy and technical, are now controlled by the TA at the PRDC meetings. The Governor himself has requested in writing that all PRT and USACE communications regarding USACE managed projects be directed to the TA and not to the Directorates or local Iraqi officials.

#### NON-TRANSPARENT BUDGET EXECUTION PROCESS

15. (SBU) The Provincial Government's request for greater involvement in and even control over US funded projects does not at the present translate to greater US involvement in the Iraq funded projects. The Iraqi process remains largely hidden from both the US and the Iraqi public. At a recent PRT sponsored local media conference, a key complaint voiced by the Karbala media was the complete lack of transparency in the development and execution of the Provincial Capital Budget.

#### LEVERAGING CONTROL FOR TRANSPARENCY

16. (SBU) PRT Offs see significant potential benefits to increased Iraqi control of US funded capital projects provided that control can be leveraged by the PRT to obtain US access to the Iraqi systems. The cloak of invisibility that currently precludes PRT involvement in the Iraqi process is a major impediment to the PRT's efforts to enhance provincial budgetary execution.

#### CONCERNS ABOUT IRAQI INVOLVEMENT IN THE US PROCESS

17. (SBU) While the potential benefits of greater Iraqi involvement in the US contracting process are appreciated by the

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PRT, PRT Offs are concerned about the motivation behind the Iraqi's request. PRT Offs have received numerous reports of corruption in the Iraqi capital budget execution process. These reports come from the directorates, Iraqi contractors, media, elected officials, NGOs, and Iraqi citizens. The general consensus appears to be that Iraqi control of any aspect of the contracting process expands the likelihood for extortion that undermines contract execution and construction quality by contractors forced to cut corners to make up for funds lost to bribes. It also allows the Iraqi overseers to compel contractors to accept terms not included in the original contract terms and thereby undermines the willingness of qualified contractors to participate in the bids.

#### LEGAL IMPEDEMENTS TO CHANGE

18. (SBU) PRT Offs recognize that at this stage of the US effort in Iraq, the emphasis must be on developing the Iraqi capacity rather than on actual construction. PRT Offs have discussed with USACE the possibility of allowing some degree of Iraqi involvement in the US contracting process in exchange for greater US involvement in the Iraqi process. It appears that Iraqi involvement in the bid solicitation and bid selection processes is not possible under US law for the projects managed by USACE. The current process does allow for Iraqi input before progress payments are made. Complaints presented to the PRT or USACE at PRDC meetings can be factored into USACE's decision to make progress payments, make final payment, or to blacklist a specific contractor. The Iraqis, however, seek a level of control over the U.S. funded projects and not mere input. The Iraqis seek monetary grants rather than completed projects.

#### PREFERRED SOLUTION

19. (SBU) The PRT's primary interest in extending Iraqi participation in the U.S. funding process is to leverage US contributions to gain access to and influence the Iraqi budget execution process. If possible, PRT Offs would prefer to

process certain U.S. funded projects through the Iraqi systems of bid solicitation, bid opening, bid evaluation, contract award, contract management, and contract oversight. (The relevant Iraqi processes are established by written Regulations issued by the Iraq Minister of Finance and the Ministry of Planning and Development.) In exchange for the Iraqi control, the PRT would require PRT oversight at each stage of that process as a precondition to US financial commitment to the projects. That oversight would be used to gain greater PRT understanding of, involvement in, and influence over the Iraqi budget execution process. Unconditional capital project grants have in the past been allocated to the province. Unfortunately, without conditions to encourage transparency and legitimacy in the Iraqi process, such grants appear to further reinforce the existing, non-transparent Iraqi process.

#### WAY FORWARD

10. (SBU) The PRDC process in Karbala does not currently support improvements in either the legislative or executive processes of Holy Karbala Province. Absent any changes in the U.S. project funding process, the PRT will attempt to influence the provincial legislative process by requiring that all PRDC related projects be submitted for review and vote by the entire provincial council, with the independent media present at such meetings, and distribution of the record of that meeting to each District and Sub-district Council. The PRT will also continue to talk to the Governor to encourage some level of PRT involvement in the Provincial budget execution process.

11. (SBU) COMMENT: The PRDC Process as it currently exists in Karbala Province is not capable of sufficiently enhancing the Iraqi capital budget execution processes. The PRDC process appears to provide an excellent tool for the employment of US funds to further develop Iraq's infrastructure. In its present state, however, it appears to do little to enhance the Iraqis' ability to use Iraqi money to rebuild Iraq. It would be helpful if U.S. funds directed to the provinces could be allocated in the form of conditional grants that would allow the PRT sufficient leverage to influence the Iraqi budget execution process.

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